

City of Detroit


CITY COUNCIL

IRVIN CORLEY, JR.
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ANNE MARIE LANGAN
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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director 

DATE: December 4, 2008

RE: Resolution authorizing execution and delivery of Lease Supplement No. 8 to Contract of Lease No. 2 between the City and the Detroit Building Authority (DBA) (**Recommend Approval**)

The aforementioned resolution (DBA lease supplement resolution) will appear on tomorrow's Budget, Finance and Audit Standing Committee agenda. Based on responses to my inquiries, I provide the following report.

The DBA lease supplement resolution facilitates three things: the payment of termination payments under the Interest Rate Swap agreement from amounts in the Surplus Fund; the redemption of Bonds; and reimbursements due to the General Fund from advances made during the Hockey Strike.

Payment of Termination Payments

The issue of payment of termination payments is the most critical component of the DBA lease supplement resolution.

The City of Detroit's Detroit Building Authority has only outstanding Series 1998A and Series 1999A DBA revenue bonds supported by parking and arena system revenues. Council should note that the DBA Series 1999A revenue bonds represent a \$30 million bond sale for the purpose of constructing the Premier Garage on the former Hudson's site that was approved by your Honorable Body in October 1999.

The MBIA Insurance Corporation (MBIA) is the bond insurer for both the Series 1998A and Series 1999A bonds. The DBA were able to issue these bonds with AA credit ratings since the bonds were further secured by MBIA, which also had an AAA rating at the time.

The DBA also in October 1999 entered into an Interest Rate Swap agreement with Citigroup (formerly Solomon Brothers) associated with the Series 1999A bonds.

The interest rate swap agreement has a provision that a termination payment is due whenever the long term rating of the Series 1999A bonds falls below an AA rating, thereby, terminating the swap agreement. Since MBIA has been downgraded due to the sub-prime mortgage market, it is very likely that this termination payment provision will be "triggered".

Since the termination payment trigger is imminent, the DBA lease supplement resolution before your Honorable Body allows the DBA to use funds from the parking and arena system's Surplus Fund to cover any termination payment due. Currently, the estimated amount of any termination payment is approximately \$11 million. Fortunately, there are sufficient funds in the Surplus Fund and other reserve accounts to cover this payment; hence, no General Fund dollars are needed to make the payment.

The only caveat is that the termination payment could grow based on current market conditions. As such, it is highly critical that Council consider approving this DBA lease supplement resolution at your next formal session on December 9th.

It is also important to note that the timing of the issuance of the 2007 CAFR has no impact on this resolution.

The Redemption of Bonds

If the Premier Garage is ever sold/transferred to Quicken Loans for the Quicken Loans headquarters relocation to downtown Detroit project, the DBA lease supplement allows for any redemption of the Series 1999A bonds to facilitate this sale/transfer. Most likely, proceeds from a sale would be used to pay down the bonds since the bonds would become taxable, and could no longer be secured by parking revenue from the DBA parking and arena system.

In addition, the Series 1999A bonds may need to be redeemed even if the Premier Garage is not sold to Quicken Loans but is primarily occupied by Quicken Loans employees/clients. Since the garage would be occupied primarily by a private entity, a significant portion of the Series 1999A bonds would become taxable bonds, and probably would have to be redeemed to facilitate the taxable structure of the bonds. The DBA lease supplement allows for any redemption of bonds to occur.

Council should note that there are still ongoing discussions between Quicken Loans and the City concerning its relocation efforts. According to a development agreement, Quicken Loans has until the end of December 2008 to determine its headquarters site in downtown Detroit.

Reimbursements due to the General Fund

In 2005, the General Fund advanced \$9,575,000 to the Automobile Parking Fund due to the negative impact of the Hockey strike on parking revenues. The Municipal Parking Department has agreed to repay the General Fund based on the following schedule:

Automobile Parking Fund

Repayments due to General Fund - advances made during Hockey Strike.
as of 6/30/05

Loan Balance			<u>\$ 9,575,000.00</u>
9/30/2007	Repayment Amount	Year 1	(200,000.00)
6/1/2008	Repayment Amount	Year 2	(700,000.00)
6/1/2009	Repayment Amount	Year 3	(700,000.00)
6/1/2010	Repayment Amount	Year 4	(600,000.00)
6/1/2011	Repayment Amount	Year 5	(850,000.00)
6/1/2012	Repayment Amount	Year 6	(700,000.00)
6/1/2013	Repayment Amount	Year 7	(850,000.00)
6/1/2014	Repayment Amount	Year 8	(700,000.00)
6/1/2015	Repayment Amount	Year 9	(800,000.00)
6/1/2016	Repayment Amount	Year 10	(900,000.00)
6/1/2017	Repayment Amount	Year 11	(1,000,000.00)
6/2/2017	Repayment Amount	Year 12	(1,575,000.00)
Total			<u>\$ (9,575,000.00)</u>

The DBA lease supplement resolution allows for the parking system to repay the City's General Fund over time. It is my understanding that Municipal Parking is current with the repayment schedule.

Recommendation

I recommend that your Honorable Body approve the DBA lease supplement resolution based on the above analysis.

cc: Council Divisions
Auditor General's Office
Joseph Harris, Chief Financial Officer
Donita Crumpler, Manager I-Finance
Pamela Scales, Budget Director
Shawny Deberry, Municipal Parking Department Director
Arese Robinson, Mayor's Office

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